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THE OPERATOR:
Welcome to the Vector Group second–quarter 2002 earnings conference call. (CALLER INSTRUCTIONS). The statements made during this conference call which are not historical facts are forward–looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward–looking statements. These risks are described in more detail in the company's Securities and Exchange Commission filings. Now I would like to turn the call over to the Chairman and CEO of Vector Group Bennett LeBow.

MR. BENNETT LeBOW:
Thank you. Good morning everyone and thank you for joining us on Vector's second–quarter 2002 earnings conference call. With me today is Ron Bernstein, President and CEO of the recently formed Liggett Vector Brands and President and CEO of our Liggett subsidiary. In terms of the structure of today's call, first let me begin by updating you on our businesses focusing on Vector Tobacco and our new cigarettes, and then by outlining our financial performance. Ron will then give his perspective on our conventional cigarette tobacco business, and then we will be available to answer your questions. First of all on Vector Tobacco. During the second–quarter, we continued to execute our plan to put in place the best infrastructure possible to maximize selling distribution of all of our Liggett Group and Vector Tobacco products through Liggett Vector Brands. As of today, we have approximately 400 salespeople, all completely trained to sell both Liggett and Vector Tobacco products. Our plan is to continue to expand the salesforce throughout the remainder of the year. Our salesforce continues to secure new regional brands and positions the Liggett Vector to deal effectively with what has become a highly volatile marketplace which Ron will update you on

later. Our Quest product continues to progress on schedule toward a sales launch in December when we will begin selling in select regions to distributors and retailers for in–store delivery and consumer sales beginning in early January 2003. Based upon expensive consumer research, we have determined that Quest business potential can be maximized by offering the brand in an innovative product group that will consist of three different varieties, each with increasing amounts of nicotine that is going to be called Quest 1, 2 and 3. Quest 1 is a low nicotine cigarette with .6 mg of nicotine and 10 mg of tar. Quest 2 is an ultra low nicotine cigarette with .3 mg of nicotine and also 10 mg of tar. Quest 3 is a nicotine–free cigarette with less than .05 mg of nicotine and also 10 mg of tar per cigarette. As a frame of reference, Quest 1, the first step on the road toward the coming nicotine–free, has approximately 17 percent less nicotine than average light cigarette on the market. Quest 2 has approximately 58 percent less nicotine than the average light cigarette. And finally Quest 3 has only trace amounts of nicotine, considerably below any cigarette on the market and significantly below recognized addiction levels. It is an important to note, however, the tar levels on all three Quest cigarettes are approximately 10 mg. As you note, tar is an important measurement of taste. Conventional light and ultra light cigarettes use air dilution technology to achieve lower tar and nicotine levels which negatively impacts the taste. This air dilution method then causes the average smoker to continually compensate either by covering up the air holes or drawing longer and harder. All this cannot happen with Quest as there is no air dilution. We, of course, use our unique nicotine–free tobacco to produce Quest 1, 2 and 3. We believe that the step down approach will be the most effective way to gain consumer acceptance of new product and provide the smoker with a potential road map to becoming nicotine–free. As a matter of interest, our advertising tag lines will be the road to nicotine–free, the path to nicotine–free, step down to nicotine–free, etc.. Also we are continuing to work with Dr. Jay Roads (phonetic) of Duke University. He is one of the inventors of nicotine patch on our Quest product as a potential role as a smoking secession device down the road. Dr. Rose and his team of researchers have been running tests of a prototype model of our Quest product and continue to research ways to use nicotine–free cigarettes such as Quest to help break nicotine dependence for smokers. While Quest will not initially be marketed as a smoking cessation device at the time of launch, as we said before, we fully intend to seek FDA approval to ultimately market the Quest technology as a smoking cessation device once we assemble the necessary scientific data. All three Quest products will be available initially in king size, non–Menthol, boxed packings at launch. The packages withe slickly designed blue backgrounds feature red numbers that clearly communicate the product as Quest 1, 2, or 3. The numbers are also prominently supported with the scriptors — low nicotine, extra low nicotine or nicotine–free respectively. The Quest product will be available in retail stores during January. Our first markets include New York, New Jersey, Pennsylvania, Ohio, Indiana, Illinois and Michigan. These seven states account for approximately 30 percent of total industry volume in the United States. We will support Quest with a significant advertising marketing campaign beginning in December. Advertising will run in major magazine publications at regional print media, and the product will also be supported by point of purchase campaigns. We intend to continue rolling out Quest (technical difficulty) — in other major markets throughout the United States as 2003 progresses. As you can probably tell, we are very excited about this revolutionary new product. Our Quest products smoke and taste like a regular cigarette, and we are confident that Quest will be unlike any product on the market. We believe Quest will fill a significant need and offer adult smokers a new compelling smoking alternative. For those of you investors interested in the product and if you reside in your York, New Jersey, Pennsylvania or California and wish to receive complementary packs of Quest 1, 2, 3, please call to 212–409–2885, and we'll send you an

age verification form. Please sign the form and fax it back to us with a copy of your photo ID. By mid–September, we will send you complementary packs of Quest 1, 2 and 3. That number again is to 212–409–2885. I'm sure everyone is interested, so let me give you a brief update on Omni cigarettes. During the quarter, Omni product continued to be challenged by a lack of awareness and brand identity as sales in the second–quarter remained at a low level. We can continue to run tests at Omni both at the lab and the marketplace in an effort to deliver the best possible product consumers and most importantly find the right message to convey to consumers. Clearly the message reduced –– carcinogens, premium taste –– did not work. In late, June we announced extremely encouraging scientific results that added to our believe Omni holds tremendous promise. Results of a leading independent lab showed the Omni produces significantly fewer tumors in laboratory mice than the leading national brand of dermal tumor induction or skin painting test. In fact, the actual reduction was approximately 70 percent less, which we believe is a major achievement. As you know, the skin painting test was the first as to demonstrate the link between cigarette tar and cancer. As longer test currently (inaudible) by watchdog government agencies such as the Environmental Protection Agency or EPA and the Centers for Disease Control Prevention CDC to determine the carcinogen potential of substances in the environment like tobacco smoke. Although more research is required, we believe these results demonstrate that production of a proven, reduced risk cigarette is quite realistic. Accordingly our research will continue. In addition, we continue to believe we're more advanced and more committed in this endeavor than any other tobacco company. The basic problem then is how do we enhance within appropriate guidelines the consumer awareness and understanding of this very unique cigarette. Until we conclude our market research, we are limiting our expenditures on this product, although we continue to make the product available in the marketplace. Now I'll quickly review the key financials for the quarter ended June 30, 2002 for Vector Group our conventional cigarettes and potential reduced risk cigarettes. Our conventional cigarette business includes sales of both Liggett Group cigarettes and USA brand cigarettes from the Medallion acquisition. First let me quickly review the new revenue recognition rules. As of January 1st 2002, we along with the rest of the industry adopted new requiring accounting standards mandating that certain sales incentives currently reported as operating selling, general, administrative expenses be shown as reductions of operating revenues. The adoption of new accounting standards will have no impact on our net earnings or basic diluted earnings per share. I'll quickly review the key financial for the quarter ended June 30, 2002. For comparative purposes, we exclude the new valley minority interest and the discontinued operations (inaudible). The following financial results reflect the new revenue recognition requirements on a current and comparative basis. For the quarter ended June 30th 2002, Vector Group revenues wore 140.1 million compared to 110.1 million in the 2001 second–quarter. The Company recorded an operating loss of 3.2 million compared operating income of 19.8 million in 2001 period. Net loss was 3.3 million or 10 cents per diluted common share compared to net income of 11.6 million or .34 per diluted common share in the 2001 second–quarter. For the performance of our (inaudible) cigarette business for the three months ended June 30th 2002, our convention news of 138.7 million compared to 107.7 million for three months ended last year . Operating income was 24.9 million for the second–quarter 2002 compared to 33.1 million for the three months ended last year. The second–quarter numbers exclude charges related to restructuring costs, factory relocation, non–cash compensation and settlement expenses. Our conventional cigarettes continue to have strong cash flow from operations. For three months ended June 30th 2002, conventional cigarettes EBITDA was 26.5 million compared to 34.3 million the same period in 2001. Going through our reduced risk cigarettes, revenues derived from Vector Tobacco's first

product Omni which began selling in November 2001 were approximately 1.1 million. As previously mentioned, we have taken a number of steps to improve the long-term performance of the brand. The revenue also was much lower that quarter because there were some returns. Vector Tobacco significant expenditure for items such as RDand marketing coupled with only nominal second-quarter revenues resulted in operating loss of approximately 20.1 million for the quarter. Let me now turn the call over to Ron Bernstein, President of Liggett, who will update you on the performance of the Liggett Group.

MR. RONALD BERNSTEIN:
Good morning everybody. The second-quarter of 2002 proved to be a quarter of mixed results for Liggett. Overall Liggett continued its pattern of unit growth up sales of 12.3 percent over the prior year period. On the positive side, Liggett Select continued to be the Company's primary driver with outstanding growth of 58 percent over the prior year. Liggett Select's second-quarter sales of over 1 billion units represent the largest single quarter sales of any Liggett brand in 11 years. Liggett Select is currently the fastest-growing brand in the country. In addition, after experiencing a unit decline of 28 percent in the first quarter, the private-label category volume trends have been corrected with sales increasing 100 percent over the first quarter and running consistent with the prior year period. The control category was also effectively flat compared to the prior year period. Sales of the USA brand acquired in the Medallion transaction have proceeded on target with our initial expectations. In fact, the USA brand has proven to be a positive contributor to our strategic objectives as the brand is well-established with certain retail partners who can also support our premium brand objectives. As a reminder, our plan for the discount category has been too maintain the USA brand and private and control label sales levels while expanding our distribution on Liggett Select (technical difficulty) — such as important Liggett select shortly. On the negative side, however, overall premium sales were down 21 percent from the prior year period with sales of (inaudible) down by 33 percent. Sales of the Jade brand introduced in the third quarter of 2001 were up 13 percent over first quarter sales. Moreover during the second-quarter, our base of distribution for Jade more than doubled which puts us in good position for the future growth of the brand. In recent months, we've seen unprecedented pricing activities from the big four cigarette manufacturers. Cool and Salem, brands that Jade competes with, have been represented in the marketplace with buy one get one offers as well as price reductions as high as $1.20 off per pack $12 off per carton. After dropping the price of Misty (phonetic), a prime competitor brand to Eve, approximately $8 per carton late in 2001, Brand Williamson (phonetic) has recently added additional price promotions of $2 to $3 per carton. Philip Morris has been promoting its products at increasing rates with buy three, get two offers as well as pack reductions of up to 75 cents per pack on Marlboro. This is a trend that we expect to continue. Recent substantial excise tax increases in many states in addition to an increase of $1.50 in New York City has placed enormous pressure on consumers in a difficult economy. The big four cigarette manufacturers appear to be responding to the situation by further increasing their promotions. Philip Morris has announced it is adding $350 million of promotional expense to their plan for the second half of 2002. RJR has indicated it will increase spending as necessary to beat Philip Morris. (indiscernible) has also indicated that will be promoting Newport on a buy one get one basis and a buy two get one basis during the coming quarters. This is something that they have never done before. In short, we have the makings of a premium price war in the domestics cigarette market. The aggressive competitive premium brand pricing actions previously discussed resulted in reduced premium unit sales and margins for Liggett during the second-quarter. In addition, these actions will continue to result in decreased margins on premium brand sales throughout the remainder of

2002. While the combined effect of lower unit sales and decreased margins will cause us to reduce our earnings guidance for the year — I will speak more to this in a moment — the market pricing actions also create some significant opportunities for Liggett. First renewed consumer sensitivity to pricing levels should prove beneficial to the continued growth of Liggett Select. We're committed to sustaining the growth rate of Liggett Select and will maintain a sufficient price differential with premium brands to assure that growth continues. Growth of Liggett Select is a critical component of our corporate strategy. As we continue to expand our Liggett select distribution, introductions on premium brand such as Jade and new highly differentiated brand such as Quest will be easier and far quicker than in the past. During the second quarter, our distribution base on Liggett select increased by 54 percent, despite the downtime related to training of the sales force in April. Additionally while premium profit margins have been strained, profit margins on Liggett Select have held up well thus far. Second, with increased promotional activity on premium brands, consumers will likely be more open to trial on value opportunities in the premium segment. We intend to take as aggressive pricing actions as necessary on Jade to stimulate trial and continued growth on the brand. We will do the same with Eve to hold our existing customers and to encourage trial and growth among new customers. Consequently, effective immediately, we are increasing the promotional spending on Jade from current levels of $10 a carton to $15 a carton. On Eve, promotional spending will increase from $8 a carton to $12 a carton. These promotional spending increases, which we hope will be temporary, will unfortunately reduce our margins by $15 million to $20 million this fiscal year. Accordingly, we are lowering our operating income guidance for Liggett from the previous range to $140 to $145 million 2002 to new guidance of $120 to $125 million. We further anticipate that the response Liggett is taking to current market conditions will enable us to quickly restore premium unit growth at a current profit margin to achieve substantially increase profits during 2003. Thank you for your attention.

MR. BENNETT LeBOW:
Before I finish the prepared remarks, I want to reaffirm that our dividend policy remains the same. We have no plans to change our dividend policy which I believe now correlates to yield of over 10 percent. In addition to the cash dividend, we fully expect to issue our 5 percent equity dividend in September as we have done in prior years, which of course increases the dividend yield. Lastly, let me just inform you that I personally verified Vector Group's financial results and signed our financial statements in accord with the new regulations. Now, operator, would you please open the call for questions?

THE OPERATOR:
(CALLER INSTRUCTIONS).

THE CALLER:
I have a question regarding the new USA brands. Have you guys done anything to the pricing since you acquired them? I notice in the retail outlets it looks like the price has increased substantially, and what your plans are on that going forward?

COMPANY REPRESENTATIVE:
As far as the pricing on USA, in select markets, there maybe some deference at the retail point-of-sale. In essence, we have not increased the price on USA. We may have adjusted some of the promotional spending that was there before. However, the indications are since we have taken the brand on in April that the volume levels have held consistently with where

they were.

THE CALLER:
Do you have any plans going forward in terms of advertising more extensively or increasing its pricing? What do you plan on doing, or is that more of a market share purchase?

MR. RONALD BERNSTEIN:
In essence, we are not looking to expand market share with USA. As I have said in the past and repeated today, the core growth brand for our company is Liggett select. If we grow other brands that are regionally distributed beyond levels that they are right now, what happens is it impedes the ability to grow the Liggett Select brand. What we're doing is we are working with select retail partners who have established business with USA to assure that they are in good position, and that brand will hold its position relative to those markets. But we are not looking to expand the distribution on the brand in a significant way select opportunities will look at, and as far as pricing is concerned, we anticipate with USA as with all of our brands that over time the price will go up.

THE CALLER:
At the current time given the latest increase at Liggett Select — I think it was 60 cents a carton — what exactly is Liggett's average price in the marketplace compared to a premium brand?

MR. RONALD BERNSTEIN:
The price differential, which really ranges out there right now because of the state excise tax, is somewhere in the range of $1.70 to $2 difference.

THE OPERATOR:
Joel (indiscernible).

THE CALLER:
I have a question directed for Ron in terms of Liggett. Does that include Medallion in the numbers?

MR. RONALD BERNSTEIN:
Yes, it does.

THE CALLER:
How come your operating income does not pick up because of that? I understand the pricing pressure, but I would think when you through Medallion in there —

MR. RONALD BERNSTEIN:
First as a discount brand, the net profit margin we pick up is certainly not substantial enough to offset the significant declines on the premium margin (inaudible), so there is some minimal addition there. But, in essence, as we are continuing to grow on the discount segment, we are picking up margin in that entire segment. First of all, we have as our volume increases, we have increased MSA obligations, and secondly, we have the margin differential as a result to the pricing actions in the market.

THE CALLER:
Are you over 2 percent market share now?

MR. BENNETT LeBOW:
Yes, we are well over that.

MR. RONALD BERNSTEIN:
We are about 2.25.

THE CALLER:
In terms of going forward with respect to Omni and Quest, how much do you expect to spend over the next 6 to 12 months in terms of promoting the product? At what point in time, to you say hey, this is not working, or when do you start — what kind of trigger points do you look at in terms of whether determining whether or not the product is succeeding or not?

MR. BENNETT LeBOW:
Obviously the main trigger point is sales. The Omni message is not resonated with consumers, and the sales are very low. So we have to find a way to turn that around if possible. As I said on Omni, however, the science is there. The cigarette does work; we really believe that. On Quest, it is going to be launched later this year, early in January, and I think within the 30 percent market regional area I think within six to nine months we will know.

THE CALLER:
Do you have any strategy in terms of licensing this technology or product to maybe foreign tobacco companies international?

MR. BENNETT LEBOW:
(inaudible). When I see success here, I think everybody will come running, and we will be talking to them. Right now, (inaudible) in the U.S., which is the most profitable market, there is nothing (inaudible).

THE CALLER:
You think part of the reason is it is a highly competitive market, and you've got the Philip Morris's and the RJR's out there putting out a lot of noise and negative spin out there on this?

MR. BENNETT LeBOW:
I don't think that is it. Are you talking about Omni now?

THE CALLER:
Just them putting noise out there in the anti–tobacco forces and all that, and maybe the product would be more successful in a country without a lot of those variables or factors.

MR. BENNETT LeBOW:
The whole key seems to be what can you tell the consumer? The reduced carcinogen message people don't know what a carcinogen is half the time. That message got out as people thinking it is just another light cigarette. It is reduced tar, so it is just another light cigarette. So we want to say a lot more such as the results of the mouse skin painting test and things of this nature, and the Holy Grail would be to say it absolutely reduces cancer if we can ever get to that point. I don't think it is so much the competitive nature of RJR and Philip Morris, I think

it's more the message. What kind of message can you put out? That is what we are working on. When we get the right message and we get the approvals that we need to put out it, maybe we can see what develops.

THE CALLER:
How much do you expect to spend going forward over the next 6 to 12 months?

MR. BENNETT LeBOW:
On Omni, very little until we know what we're doing. On Quest, we are going to be spending a significant amount commensurate with the roll out.

THE CALLER:
Do you have any idea what amount?

MR. BENNETT LeBOW:
We said before that on national launch we will be spending about $35 million. This will be a regional launch initially, and we will see how that goes. If that goes well, we will get (inaudible) kind of number or higher as well.

THE OPERATOR:
Larry Peck .

THE CALLER:
First on Quest, given you cannot market it as a smoking cessation device initially, does this mean you have to compete for shelf space initially, and how do you plan on doing that with three products in front of the consumer?

MR. RONALD BERNSTEIN:
As Ben mentioned in his comments, we are going to initiate the roll out with Quest with the three box styles. So we are not going to be expanding it initially to 100s and soft packs which will limit us down to a level of packings that is actually less than many new product introductions. The most important thing is going to be our ability to sell in the product over a period of time. One of the reasons why we are going with the September as starting to sell the product for in–store sales beginning in January, is that it enables us to go up ahead and sellthrough to the proper distribution levels as soon as we start the support behind the brand in January. The other thing is that as we are over the course of the last several months and now continuing up until the launch of Quest, we are substantially increasing our core distribution in the marketplace so that we expect we should be able to go in with retail accounts that we already have substantial relationships with to plug Quest into the system as early as January. Any product introduction has issues in terms of getting space because as you know there is tremendous competition in the marketplace amongst the types of programs that the big four companies run. What we're doing right now is we are trying to make maximum efforts to secure space that is dedicated to Liggett, so we can use it for various products. Our anticipation is we should be able to hit our distribution objectives by the roll out in January.

THE CALLER:
And then a question on second quarter. I'm not sure if you gave the numbers or not, but just margins. If you back out the MSA, it makes the comparisons difficult. On an apples–to–apples basis, can you go through the margin comparisons between premium and

discount?

MR. RONALD BERNSTEIN:
I'm not exactly sure what you're asking?

THE CALLER:
What the gross margins were? In the 10–Q, it includes the MSA payment, so it is difficult to do the apples–to–apples. I am trying to get a sense of operationally how the margins were.

MR. RONALD BERNSTEIN:
Simply the difference in MSA payment on a year on year basis was $7 million and change.

THE CALLER:
The difficult thing I have is trying to divide that up between premium and discount.

MR. RONALD BERNSTEIN:
For practical purposes, they get spread against all brands. It doesn't really matter.

THE CALLER:
I should divvy it up based on volumes?

MR. RONALD BERNSTEIN:
It is spread across all sales because there is no provision in the MSA. Obviously from our standpoint, we look at targeting our discount products because of the advantage it gives us, but from a practical standpoint, all the cigarettes are treated the same.

MR. BENNETT LeBOW:
I think your question is how do the margins on premium and discount compare year–to–year. Is that your question?

MR. RONALD BERNSTEIN:
Effectively without the MSA, I would say they are down probably about 30 to 40 percent.

MR. BENNETT LEBOW:
The premium margins are, but the discount margins are probably up a little bit, right?

MR. RONALD BERNSTEIN:
That is correct.

THE CALLER:
That was my question. Last question I saw you issued another 30 million on the 10 percent notes. I'm trying to understand with your cash balance your thinking there?

MR. BENNETT LeBOW:
This is what we discussed on the last conference call three months ago. That was primarily for the Medallion acquisition was the purpose of that. We made a conscious decision three months ago we were not going to put more than 25 million of our cash into the Medallion acquisition, and we borrowed the rest. Part of it being the $30 million you are discussing and the (inaudible) notes. That was the financial core engineering we decided to do on that

acquisition. It has nothing to do with the cash flow.

THE OPERATOR:
Fred Burroughs of Salomon Smith Barney.

THE CALLER:
I wanted to ask Ben a question addressing the competitive effects of the renegade that are not paying the master settlement agreement in the U.S. versus the discount brands, and if you think that is slowing down or staying steady?

MR. BENNETT LEBOW:
The renegades who have not signed the MSA are supposed to be paying under the state model statues which is similar to MSA. Even though they haven't signed the MSA, they are supposed to be paying number one. A lot of them, of course, are fly by nighters, who just start up and don't pay and runaway and things of that nature. That is going to be stopping over the course of the next year or so. I think right now about 13 states have pasted laws making the distributors responsible for paying the MSA and making sure the distributors are only dealing with MSA participants. Although about 13 states have passed these laws now, we anticipate by the end of next year mostly, probably all the states will have passed the law. Of course, the four states that have not signed on to MSA — meaning Texas, Florida, Mississippi and I believe Minnesota — those states still are a problem to a degree.

MR. RONALD BERNSTEIN:
The renegades continue to be a problem in the marketplace. They are not from our prospective, they are not a huge problem. What they do is they tend to localize their business, so they operate within a state or two or three, and obviously their game is to try to do what they can to evade MSA payments. We have several clear advantages relative to the renegades. First of all, we have far greatest stability than any of them have, and the distributors and retailers know that. Secondly, our quality is far superior. They are offering some real garbage out there. Third, we are taking aggressive action ourselves in monitoring what the renegades are doing in the marketplace. I will give you an example. We recently found one renegade company that was offering cigarettes that were competing with our Eve product at very very low prices. It was a garbage product, but it was still out there cheap, and some people will buy it. What we found is this company was not reporting that they had the exact same numbers relative to tar and nicotine on their lights and ultra lights. We subsequently reported them in the states they are doing business in, and they have subsequently been banned from business in at least a couple of states. So we are continuing our efforts in order to watch what these renegades are doing in the marketplace and taking the actions other necessary to limit them as well as pretty much staying the course. Our concept with Liggett Select is that Liggett Select is the king of low price in the marketplace. There is no better value. We have been able to continue to grow that brand despite the renegade activity. So I say it's a factor, but it's not a factor that it is in anyway inhabiting our ability to grow. I think if it is doing anything, it is probably limiting the margin opportunities of that on the category.

THE CALLER:
Do you expect when enough states pass laws that you will have some upside pricing ability on Liggett Select?

MR. RONALD BERNSTEIN:
Over time, we anticipate that the impact of the renegade will diminish, managed and as the renegades diminish, the pricing and margin opportunities on Liggett Select will go.

COMPANY REPRESENTATIVE:
Don't forget the MSA payments go up next year about $3 a 1000. That should give us some opportunities to raise prices under that umbrella.

THE CALLER:
One last question. Any plans on strategic plans on New Valley with respect to — in their report, they sold the last real estate holding in the Company. Are there any strategic plans with New Valley?

COMPANY REPRESENTATIVE:
We are looking at a couple of opportunities with the market coming down as much as it has. We are constantly looking at different opportunities. We are being conservative. We do have some real estate by the way. We have two real estate investments. One, a hotel project in Hawaii which is going to be a hotel that was closed that was being renovated who were co–venturing with (indiscernible) Associates who is a major developer and real estate operator in Manhattan. We also control a residential real estate brokerage company in Long Island with about 40 offices which has a mortgage company attached to it and the title company, and we see a lot a growth in those two areas. We are also looking at some other real estate opportunities including a few (indiscernible) which look attractive as far as the potential of purchasing them and liquidating all the assets and trying to use the New Valley NOL. New Valley has unrestricted NOL of about $110 or $120 million at this point, which we would like to do something with. Those are the basic opportunities at this point we are looking at.

THE CALLER:
Does New Valley still own their (indiscernible) shares?

COMPANY REPRESENTATIVE:
Yes, we do . In fact, that is something else we are looking at.

THE OPERATOR:
Donald (indiscernible) of Jefferies.

THE CALLER:
Ron, you have been around the cigarette industry a longtime. What is your read on ongoing basis? If we have the second quarter call a year from now, as to what you see unfolding in terms of the promotional environment going forward? Do you think the current environment is a fact of life; this is it; this is what it is going to be, or it gets worse as again as other states increase taxes and MSA payments overtime go up and so on. Do you think there is some rationalization and less promotional?

MR. RONALD BERNSTEIN:
First of all, as I indicated in my comments, I believe that's what going on right now from a promotional standpoint is going to continue. Clearly Philip Morris is going to protect their dominant position specifically with Marlboro with every bit of vigor that they have. The only

effective way at this point of doing that is with price. The only thing that drives business from them — and you have to look at it. The whole dynamic is changing because what we are looking at now with excise taxes ranging from 30 or 40 cents a pack to as much as $3 a pack that these are levels that far exceed anything that the industry has ever done themselves. When the industry raise prices, they go up 5 cents or 6 or 7 cents a pack. That is almost a unnoticeable number now compared to what has happened with excise taxes. So the real focus comes on to the promotional activity and protecting the market share. I suspect, Don, from our standpoint I actually believe volatility is a good thing because it creates opportunity. We are not really direct competitors with the premium brands of the big companies. We're looking for niche opportunities, and obviously pricing is one of the mechanisms we use. That is why we are taking the substantial price promotional increases on Jade and on Eve to assure because at those levels we still have good margins on those brands, and we believe that will drive volume. There is a limit to how far the big companies can go. So I think we are in somewhat of a new paradigm, and I think you are going to look at Philip Morris and RJR trying to make some adjustments to their programs that will help to enhance their position, but we believe that we are going to be able to continue to grow against the model of not just the premiums but the branded discount as well as the deeper discount companies out there.

THE CALLER:
Thank you.

THE OPERATOR:
Mitch (indiscernible) of CIBC.

THE CALLER:
A couple of quick questions. A little while ago, you mentioned about the dividend policy and that you'll be maintaining it, but could you discuss that a little bit? Is the dividend policy one that takes into account a percentage of the EBITDA as a (indiscernible), or what is exactly is the dividend policy?

MR. RONALD BERNSTEIN:
We are maintaining the $1.60 dividend. There is no specific policy of percentage of earnings or anything like that, but we are maintaining the $1.60 dividend.

THE CALLER:
The next question is there anything precluding the Company from buying back stock at these levels? Anything in (inaudible) that were issued or anything like that?

MR. BENNETT LeBOW:
It is just like a dividend policy. Anything in the (inaudible) are treated like dividends. We are maintaining the position of declaring dividends as opposed to using that cash for buying back stock. Obviously you can do either one. I think it is more advantageous at this stage of the game for everybody to have dividends, and we are maintaining that. We are not doing both.

THE CALLER:
No one would argue then that Vector's management is probably among the most creative and aggressive in the industry, and yet we have been devastated in the stock performance year–to–date. We are the worst in the peer group by far. My question actually pertains to time management performance to the shareholder's interest or the stock price. Right now, there

seems to be a bit of a disconnect. Management compensation is among the highest in the industry in both the relative and an absolute basis. Have any thoughts been given to time management performance more toward the stock price performance?

MR. RONALD BERNSTEIN:
First of all, we all owned a lot of stock, especially myself. Obviously I am tied as much as you can be tied to the stock performance. Obviously we want to see the stock up as high as possible as soon as possible, and what you are seeing in the stock price in our opinion is the expenditures on the new products. It would be very easy for us to stop spending money on new products and get the stock price to a steady level just based upon the MSA carve out we have. But the strategy this company as far as we can is to try and develop these new products and grow the Company not stand still and run it out so to speak. So I think we are tied to the stock price. We all have stock and stock options. That is our main goal here, and we want the price as high as possible until the new products run their course and see what is happening, you are going to have this problem.

THE CALLER:
Let's talk a little bit about the value of the enterprise. What exactly is the cash if you ex– out the bonds that are outstanding, what would the cash value per share? Have you worked out that calculation?

MR. BENNETT LeBOW:
Say that again?

THE CALLER:
What is the net cash per share in the Company right now if you take out the converts, if you were to pay off the converts?

MR. BENNETT LeBOW:
How about New Valley? Take that cash consideration?

MR. RONALD BERNSTEIN:
I would think it is 60 percent on division. billion Let me get the numbers.

COMPANY REPRESENTATIVE:
We have about 140 million of converts outstanding. We have about right now the equivalent of about $80 million on the senior note. That is 220. Say New Valley is worth 130 to 150 -- (multiple speakers). So that is 90 or 100 million there. So that leaves you under 20 (inaudible), probably net 50 million (multiple speakers).

MR. BENNETT LeBOW:
Some positive number. What is the point?

THE CALLER:
I'm trying to work out the enterprise value versus the stock price right now.

MR. BENNETT LeBOW:
The enterprise value as we said many times is if you take out all the Vector stuff, which you can do, you have the MSA carve out which we have said is worth about 170 million of

EBITDA going forward after next year. So use that as your base number for enterprise value. So 170 million of EBITDA, then take a multiple six or seven or whatever you want to pick, and you pretty much get to the enterprise value of the base Liggett cigarette business.

THE CALLER:
Figuring 40 million for diluted, you are looking at somewhere north of $4 a share net.

MR. BENNETT LeBOW:
Pretax. Anytime you want to stop trying to expand into other premium markets or other reduced risk markets, things of that nature.

THE CALLER:
My last question is are you pursuing anything in the overseas markets?

MR. BENNETT LEBOW:
Not at the present time. We have some very very preliminary discussions going on, but I must emphasize they are extremely preliminary.

THE OPERATOR:
Bill Moore.

THE CALLER:
Can you explain to me the accounting for the MSA and the language in the 10-Q regarding gross profit regarding higher than estimated payment obligations?

MR. RONALD BERNSTEIN:
Relative to the MSA, we have to under the terms of the MSA, in effect for every cigarette that we sell over our cap amount with the acquisition of Medallion it runs about 8.2 billion cigarettes. We need to accrue this year $15.50 per 1000 cigarettes. So what we do in effect is relative to what our plan is for the year. We accrue on the overage above what we anticipate our cap level will be on a pro rata basis.

MR. BENNETT LEBOW:
It is 90.2 this year because we didn't have Medallion for the full year. It is three-quarters of the Medallion.

MR. RONALD BERNSTEIN:
900 million from USA this year, so it is 7.9. So everything above that level we accrue for on an ongoing basis. What was your second question?

THE CALLER:
Regarding the higher than estimated payments. Basically because it is paid in April, the actual payment was higher than what you accrued, so that gets lumped into your cost of goods sold in this quarter; is that the theory?

MR. RONALD BERNSTEIN:
No. It is relative to the accrual I believe. The payments in April what happened was because of the level of growth that we sustained last year, which was really substantial during the second half of the year, we ended up accruing far more in the second half of the year than we

did in the first half of the year. Because we do not know at that point that growth levels actually exceeded our expectations going into the second half of the year. Is that clear?

THE CALLER:
What I'm try to figure out was there some sort of catch–up in the cost of goods sold line?

MR. BENNETT LeBOW:
It would have been in last year's numbers.

MR. RONALD BERNSTEIN:
All that was accrued last year, so the only difference is relative to year on year.

THE CALLER:
So when you are referencing, you are talking about the year on year comparison —. I'll give you a call off–line on that. The second question I had was the Medallion acquisition you did that 10 percent note price discount to yield 15.75. Given the discussion about the cash you have, what was the rationale for doing that transaction?

MR. BENNETT LeBOW:
I've answered it 20 times, but people don't seem to understand we went to Medallion — at least I did — to the Medallion acquisition on the theory that on a cash basis (technical difficulty)— we only put up $25 million on a $110 million acquisition. I wanted to finance external to the company the rest of the money. So we borrowed 25 million on that note, which is 50 million, and the seller took back 60 million. You might think that is a crazy interest rate payment just for the process, but that is the planning we did it, and we agreed to just put up $25 million. That is just the way we decided to pursue the acquisition. It is not because we needed the money or wanted the money or anything like that, it was to limit our cash advances to 25 million.

MR. RONALD BERNSTEIN:
It's also important to add at the time (inaudible) if there was anything, we are talking about additional similar type of acquisitions. Therefore we did not want to spend all our cash on these types of acquisitions, so this became our financing strategy.

MR. BENNETT LEBOW:
We try to make it a self–financing deal. In other words, the savings on the (indiscernible) we bought would pay for itself, and we would pay the financing and pay it off. If you work out the numbers after–tax and after interest and everything else, in about six years, we payoff everything without any cash out of our pockets.

THE OPERATOR:
We appear to have run out of time for the QAsession. I would like to turn the floor by over to management for any closing remarks.

MR. BENNETT LEBOW:
I want to say thank you very much for joining us, and again we are looking forward to the launch of our Quest cigarettes, the Quest 1, 2, 3. We hope it will be a very successful product, and time will tell. Thank you very much.

THE OPERATOR:
Thank you for your participation, and this does conclude this morning's conference. You may disconnect your lines at this time. Have a wonderful day. (CONFERENCE CALL CONCLUDED)

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